

*CDIAC*  
*Fundamentals of Debt Financing*



County of San Diego  
Donald F. Steuer  
Chief Financial Officer

## Decisions to Issue Debt

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- Define the need
  - Planned vs Emergent
- Centralize the Function
  - Ensures Consistency
- Define the Rules
  - Board Policy 65/Finance Team
- Review your Cash Position

# Working with Your Financing Team

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- Have a Written Policy: (B-65)
  - Establishes a Debt Advisory Committee (the “DAC”)
  - All issuance of long-term obligations must go through a review process
  - Relationship with the rating agency and the financial community
  - Compliance with State, Federal and local law

## Unwritten Policy

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- When to issue long-term obligations and when not to
  - Under \$10 million
    - Pay as you go
  - Over \$10 million
    - How will the obligation be repaid?
    - What is the impact on debt portfolio?
    - What is the impact on debt ratio?

# Financing Vehicles/Projects to be Financed

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- Authority to Issue Debt
  - **State constitutional limitations prohibit cities, counties, and school districts from entering into indebtedness or liability exceeding in any year the income and revenue provided for such year unless the local agency first obtains two-thirds voter approval for the obligation**
    - Three exceptions:
      - ***Special fund doctrine***
      - ***Offner-Dean lease exception***
      - ***Obligation imposed by law exception***
- Two long-term bonded debt financing vehicles
  - C.O.P.'s (Certificates of Participation)
  - Taxable Pension Obligation Bonds
- Short-term financing vehicle
  - TRANS (Tax and Revenue Anticipation Notes)

# TRANS

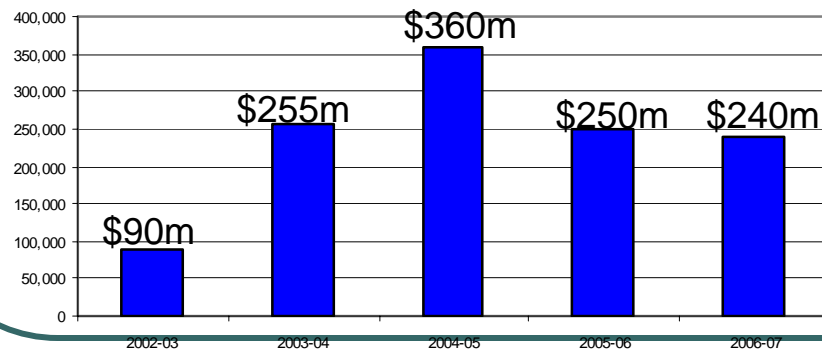
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- What are they?

- Notes issued in anticipation of receiving tax proceeds or other source of revenue at a future date.

- Type of financing vehicle

- Short-term – 13 month note



- County's process:

- March/April calculate cash flow needs for next fiscal year.
- Select a financing team, if not already on-board.
- Prepare financing documents
- Board of Supervisor's approval of note issuance & documents
- Price the notes
- Administration after issuance
  - Compliance with set-asides
  - Arbitrage

# Certificates of Participation

- What are they?

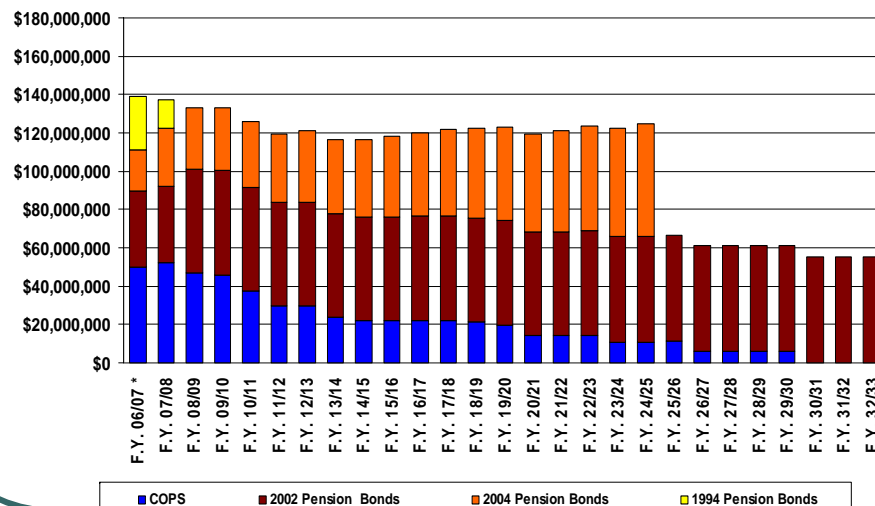
- Undivided interest in payments made by a public agency

- Type of financing vehicle

- Long-term

- County's process

- Determine amount to be financed, how is the debt to be repaid
- DAC/Board of Supervisor's approval
- Select the financing team
- Financing structure and documents
- Rating Agency/insurer discussion/presentation
- Return to Board of Supervisor's for document approval
- Close the financing
- Living with the issue



## Certificates of Participation - Issuance Process – Case Study

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- DAC and Board of Supervisor's approval
- Refine the amount to be financed
  - Work with General Services and Project Advocate
- Select the financing team
  - RFP Process



## Certificates of Participation – Select the Financing Team – Case Study

| <b><i>Finance Team Member</i></b> | <b><i>Role</i></b>  | <b><i>Selection process</i></b> | <b><i>Firm</i></b>                  |
|-----------------------------------|---|---------------------------------|-------------------------------------|
| Financial Advisor                 | Acts as an advocate to make sure the underwriter is treating the County right, validates numbers, and assists with pricing  | RFP –<br>On-going contract      | RBC Dain Rauscher                   |
| Underwriter                       | Purchases the COP's from the County with the intent to resell to investors  | RFP –<br>Deal by deal basis     | Banc of America and Lehman Brothers |
| Underwriter's Counsel             | Preparation of the official statement   | Selected by underwriter         | Hawkins, Delafield & Wood           |
| Bond Counsel & Disclosure Counsel | Bond counsel is responsible for the preparation or review of the legal proceedings for the issuance.<br>Provide an opinion that the issue is legal, valid, binding and in accordance with the law.<br>Disclosure Counsel ensures compliance with federal and state securities law | RFP –<br>On-going contract      | Orrick, Herrington & Sutcliffe      |
| Trustee                           | Establishes and maintains funds/accounts relating to the issue, pay the bondholders, and protect the interest of the bondholders by monitoring compliance of the covenants  | RFP –<br>Deal by deal basis     | Zions First National Bank           |

## Certificates of Participation - Finance Structure Case Study

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- **Financing structure options:**

- Tax-exempt vs. Taxable
- Serial vs. term bonds
- Fixed rate vs. variable rate

- **Basis for selection**

- Tax-exempt, provides a lower cost of borrowing
- Serial Bonds, provides a lower cost of borrowing
- Fixed rate, provides known payments

## Certificates of Participation - Rating Agency, Insurer and Investor Presentations

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- Official Statement/Enhanced Disclosure
- Rating agency concerns
  - Health of the General Fund
  - Tax Base
  - Financial Management policies
- Investor concern
- Purpose of credit rating
  - Appraise the credit quality of the issuer, define risk for the investor

## Certificates of Participation - Closing the Financing

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- Return to the Board of Supervisors for document approval, can not be approved on consent
- Pricing call – What are Your Expectations?
- Sell to Investors
  - 88.8% Institutional (Commercial Banks, Bond funds, Insurance Companies)
  - 11.2% Retail (Individuals)
- Execution of final documents
- Close!

## Certificates of Participation - Living with the Issue

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- Long-term contract with investor
  - Compliance with reserve requirements
  - Compliance with tax covenants
  - Disclosure requirements
  - State and federal annual reports
- Accounting for the proceeds
- Monitor for refunding potential, net present value savings minimum of 3%

***Information Available Via Internet***

***<http://www.sdcountry.ca.gov/auditor/debts/index.html>***

